

Message Text

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ACTION EA-12

INFO OCT-01 ARA-10 EUR-12 IO-13 ISO-00 AGRE-00 CEA-01
CIAE-00 COME-00 DODE-00 EB-08 FRB-03 H-01 INR-07
INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01 AID-05
SS-15 STR-05 ITC-01 TRSE-00 USIA-06 PRS-01 SP-02
FEAE-00 OMB-01 /122 W
-----018766 171501Z /44

R 170401Z NOV 77
FM AMEMBASSY KUALA LUMPUR
TO SECSTATE WASHDC 721
INFO AMEMBASSY BANGKOK
AMEMBASSY BONN
AMEMBASSY JAKARTA
AMEMBASSY LA PAZ
AMEMBASSY LONDON
AMEMBASSY MANILA
AMEMBASSY SINGAPORE
AMEMBASSY TOKYO
USMISSION GENEVA

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E.O. 11652: N/A
TAGS: EFIN, EPAP, EMIN, UNCTAD, ITC, MY
SUBJECT: CHANGES IN MALAYSIAN COMMODITY TAXATION

REF: KUALA LUMPUR 8370 (NOTAL)

1. SUMMARY: THE GOM HAS ANNOUNCED CHANGES IN ITS EXPORT TAXES ON RUBBER, PALM OIL AND TIN. THESE TAX CHANGES WILL HAVE ONLY MARGINAL INFLUENCE ON CHANGING PRODUCTION LEVELS OF THESE COMMODITIES. THE CHANGES WERE MOTIVATED BY POLITICAL FACTORS AS WELL AS ECONOMIC. END SUMMARY.

2. THE GOM HAS ANNOUNCED THAT IT IS REVISING ITS EXPORT TAX
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STRUCTURES ON RUBBER, OIL PALM AND TIN IN ITS 1978 BUDGET. THE STATED REASON FOR THE MOVE IS TO ENCOURAGE GREATER PRODUCTION AND INCREASED RE-INVESTMENT IN THESE INDUSTRIES. EXPORT DUTIES AND SURCHARGES WILL NOW BE LUMPED INTO ONE TAX AS PART OF THESE MEASURES. THE EMBASSY WILL POUCH COPIES OF THESE NEW TAX STRUCTURES, JUST RECENTLY OBTAINED, TO THE DEPARTMENT, LONDON AND GENEVA.

3. ON RUBBER THE GOM HAS SIGNIFICANTLY REDUCED TOTAL TAXES ON RUBBER EXPORTS AND HAS ABOLISHED ANY TAXES ON RUBBER WHEN THE PRICE IS M\$.50 PER POUND (M\$1.10 PER KILO) WHICH HAS LONG BEEN CONSIDERED AS THE PRICE THAT WILL PROVIDE A SUBSISTENCE LEVEL OF INCOME TO THE 500,000 PREDOMINATELY MALAY SMALLHOLDERS IN THE COUNTRY. (NOTE: CURRENT EXCHANGE RATE IS APPROX US\$1.00 EQUALS M\$2.38). TAXES ON RUBBER EXPORTS AT ALL PRICE LEVELS WILL NOW BE LOWER THAN IN THE PAST. THE EFFECTS OF THIS MOVE ARE ALREADY BEING SEEN ON THE KUALA LUMPUR STOCK EXCHANGE AS SHARES IN RUBBER ESTATES HAVE REACHED RECORD HIGHS SINCE THE ANNOUNCEMENT. THERE IS SOME SKEPTISM LOCALLY ON JUST HOW MUCH OF THIS TAX RELIEF WILL FILTER DOWN TO SMALLHOLDERS. THE OVERALL EFFECT SHOULD BE TO ENCOURAGE INCREASED RUBBER PRODUCTION AND REINVESTMENT IN THE INDUSTRY.

4. THE GOM TREATED EXPORT TAXES ON OIL PALM IN MUCH THE SAME MANNER AS IT DID RUBBER. THERE HAS BEEN AN ACROSS THE BOARD DECREASE IN THE TAX RATES ON OIL PALM EXPORTS. IN CONTRAST TO THE RUBBER TAX DECREASE, THIS DECREASE WILL DEFINITELY FILTER DOWN TO SMALLHOLDERS, WHO ARE PREDOMINATELY MALAY, AS THEY ALMOST EXCLUSIVELY MARKET THEIR OIL THROUGH THE GOM-OWNED FEDERAL LAND DEVELOPMENT AUTHORITY WHICH WILL BE REQUIRED TO PASS THE TAX SAVING ON TO THE PRODUCERS. TAX RELIEF PROVIDED TO THE OIL PALM INDUSTRY, WHILE NOT AS SIGNIFICANT AS PROVIDED TO THE RUBBER INDUSTRY, SHOULD MARGINALLY LIMITED OFFICIAL USE

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INCREASE OIL PALM PRODUCTION.

5. IN ITS TREATMENT OF THE TIN INDUSTRY THE GOM WAS MUCH LESS GENEROUS THAN IN ITS DEALINGS WITH RUBBER AND OIL PALM. WHILE PROVIDING MARGINAL DECREASES IN TIN TAXES AT PRICES BELOW M\$1,800 PER PIKUL THE GOM ACTUALLY RAISED THE TAX BITE WHEN THE PRICE EXCEEDS THAT FIGURE. THE GOM PRIVATELY JUSTIFIES THIS MOVE BY CITING THE RECORD PROFITS THAT TIN MINING FIRMS HAVE BEEN REPORTING. AS REPORTED IN KUALA LUMPUR 8257, THIS MOVE WILL NOT LEAD TO ANY SIGNIFICANT INCREASES IN TIN PRODUCTION.

6. COMMENT: THE GOM'S MOVES ON REVISING ITS EXPORT TAX STRUCTURES HAVE TO BE VIEWED IN A POLITICAL AS WELL AS ECONOMIC CONTEXT. THE GOM HAS BEEN VERY FORTHCOMING IN DEALING WITH THE RUBBER AND OIL PALM INDUSTRIES, THAT HEAVILY INVOLVE RURAL MALAYS WHILE MAKING ONLY TOKEN RELIEF TO THE TIN INDUSTRY WHICH IS DOMINATED BY LOCAL CHINESE AND FOREIGNERS. WHICH EMPLOYES ONLY 35,000 PEOPLE. IN OUR OPINION THE EFFECT OF TAX CHANGES ON PRODUCTION IN THESE INDUSTRIES WILL BE MARGINAL. MUCH MORE IMPORTANT AS INFLUENCES ARE THE DIFFICULTIES IN

OBTAINING LICENSES FROM STATE GOVERNMENTS TO
OPEN NEW TIN MINES AND THE MUCH GREATER PROFITABILITY OF
OIL PALM PRODUCTION RELATIVE TO RUBBER. END COMMENT.
MILLER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
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Control Number: n/a
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Sent Date: 17-Nov-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
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Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
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Disposition History: n/a
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